

United States Government

Department of Energy

memorandum

DATE: February 24, 1997

REPLY TO:

ATTN OF: IG-1

SUBJECT: INFORMATION: Report on "Audit of the Department of Energy's
Consolidated Financial Statements for Fiscal Year 1996"

TO: The Acting Secretary

BACKGROUND:

The subject report is provided to inform you of the results of our audit.

DISCUSSION:

The Office of Inspector General audited the Department's Consolidated Statement of Financial Position as of September 30, 1996, and the related Statement of Operations and Changes in Net Position for the year then ended. In the opinion of the Office of Inspector General, these financial statements present fairly, in all material respects, the financial position of the Department as of September 30, 1996, and the results of its operations and changes in net position for the year then ended, in conformance with the basis of accounting described in notes to the statements.

In accordance with *Government Auditing Standards*, the Office of Inspector General also issued reports dated December 27, 1996, on our consideration of the Department's internal control structure and on its compliance with laws and regulations. Regarding the Department's internal control structure, additional efforts are needed to refine the process for estimating environmental remediation costs for the Department's active facilities. Additionally, the Department needs to fully integrate and provide adequate controls over financial management systems especially by integrating the Power Marketing Administrations into its Primary Accounting System. The Department also needs to strengthen its internal control system over property, plant and equipment.

The audit disclosed a number of other conditions relating to the Department's internal control structure that we did not consider to be reportable conditions and which did not materially affect the Department's financial statements. These matters will be communicated to the Chief Financial Officer and to heads of field elements in 11 separate management-level reports. The recommendations made in these reports are designed to strengthen internal controls or improve operating efficiencies.

The results of tests for compliance with selected provisions of laws and regulations disclosed no compliance matters reportable under *Government Auditing Standards* issued by the Comptroller General of the United States or OMB Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements*.

FUTURE CHALLENGES TO THE DEPARTMENT:

Although the Department's Fiscal Year 1996 financial statements present fairly its financial position and results of operations, the Department faces challenges that could impact its future ability to produce accurate and reliable statements.

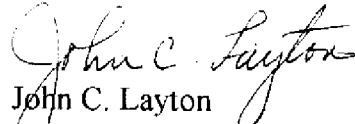
For example, the Department's unfunded environmental liability is one of the largest single liabilities in Government. The Department is faced with the challenge of periodically revising its environmental liability estimate in the face of major societal, technological, and resource uncertainties. The manner in which these uncertainties are eventually resolved could significantly affect the ultimate cost of the Department's environmental cleanup.

In Fiscal Year 1997 the Department will be further challenged with implementing a new financial accounting standard and meeting new financial management system reporting requirements. Specifically, the Department must adopt the new managerial cost accounting standard established by the Federal Accounting Standards Advisory Board. This standard will, among other things, require the Department to measure the full costs of its activities and report on those costs as part of its performance measurements. The Department will also have to comply with new Federal financial management system reporting requirements.

The Department continues to experience dramatic changes including significant staff reductions, budget restrictions, redirection of programs, redefinition of its relationship with contractors, and the adoption of performance-based contracts. Further, the Department, along with other Federal agencies, is committed to the establishment of a detailed series of performance measures to gauge its effectiveness and to assure accountability to the taxpayers. Such changes could have a significant effect on the Department's internal control environment. To address these issues, senior program managers must continue to be involved in the financial statement process to ensure that the statements accurately and reliably reflect their management of Government resources and the financial results of their program activities.

MANAGEMENT RESPONSE:

The Office of Chief Financial Officer concurred with the audit recommendations contained in the Department-level internal control report and has indicated that it will take corrective actions.


John C. Layton
Inspector General

Attachment

cc: Deputy Secretary
Under Secretary
Chief Financial Officer

REPORT OF THE OFFICE OF INSPECTOR GENERAL

The Acting Secretary
U.S. Department of Energy

We have audited the accompanying Consolidated Statement of Financial Position of the U.S. Department of Energy (Department) as of September 30, 1996, and related Consolidated Statement of Operations and Changes in Net Position for the year then ended. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards* issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, the evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Energy as of September 30, 1996, and the results of its operations for the year then ended in conformity with the hierarchy of accounting principles described in Note 1.

Our audit was made for the purpose of forming an opinion on the Department's Consolidated Statement of Financial Position as of September 30, 1996, and related Consolidated Statement of Operations and Changes in Net Position for the year then ended. The information presented in management's *Overview* and the *Supplemental Financial and Management Information* sections is not a required part of the statements, but is supplementary information required by OMB Bulletin No. 94-01, *Form and Content of Agency Financial Statements*. We have considered whether this information is materially inconsistent with the above statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion on it. The performance information included in management's *Overview* is addressed in our auditors' report on the internal control structure prepared in accordance with OMB Bulletin No. 93-06.


MATTERS OF EMPHASIS

As described in Note 13, the Department's environmental remediation liability of \$228 billion at September 30, 1996, is based on cost estimates that are highly uncertain. The uncertainty is due to the ranges of estimated costs associated with the environmental management program and with contaminated active facilities, potential additions to the disposition liabilities for excess plutonium and highly enriched uranium waste, the achievability of projected productivity savings, the potential impact of the Department's future plans and land-use decisions on remediation costs, the lack of complete information as to the extent of contamination, the uncertainty as to whether Congressional appropriations will be received at the levels anticipated in the estimate, potential cost increases caused by future inflation and natural resource damage claims, and the inherent uncertainty in long-term estimates.

The Department also is a party to various administrative proceedings, legal actions, and tort claims that may ultimately result in settlements or decisions adverse to the Government, as discussed in Note 16. The Office of General Counsel, in responding to our inquiries about these matters, was not able to form a conclusion as to the likely outcome or potential loss resulting from litigation, claims, and assessments against the Department. Readers of the Department's consolidated financial statements should, therefore, be aware that the statements may be affected by uncertainties concerning the outcome of claims described in Note 16 which are not currently susceptible to reasonable estimation.

REFERENCE TO OTHER REPORTS

In accordance with *Government Auditing Standards*, we have also issued a report dated December 27, 1996, on our consideration of the Department's internal control structure and a report dated December 27, 1996, on its compliance with laws and regulations.


December 27, 1996 except as to Note 16,
in particular the lawsuit filed on January
31, 1997, which is as of the date of the
filing of the suit.